

## Policy

# Policy Directive: compliance is mandatory

## Employee Reimbursements and Payments Policy Directive

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**Summary** The purpose of the Employee Reimbursements and Payments Policy Directive is to consider the Fringe Benefits Tax implications of common employee reimbursements and how the Fringe Benefits Tax exemption cap for hospital and SA Ambulance Services employees is applied against fringe benefits.

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TAX

# Employee Reimbursements and Payments Policy Directive

Version V1.0  
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# Employee Reimbursements & Payments Policy Directive

## 1. Objective

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The purpose of this policy directive is to consider the Fringe Benefits Tax (FBT) implications of common employee reimbursements and how the FBT exemption cap for hospital and SA Ambulance employees is applied against fringe benefits.

*This policy directive does not apply to expenses relating to Professional Development for Medical Officers. Please refer to the Professional Development and Fringe Benefit Tax Policy.*

## 2. Scope

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This policy directive is applicable to all SA Health employees, with the exception of reimbursements made to Salaried Medical Officers, Clinical Academics and Visiting Medical Specialists provided for under their professional development entitlements; pursuant to their Enterprise Agreements.

## 3. Principles

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The following principles must be followed:

- > Compliance with the requirements of the *Fringe Benefits Tax Assessment Act (FBTAA) 1986*.
- > Eligibility for exemption from FBT up to a capped amount is restricted to staff employed by public hospitals and public ambulance services.
- > Employee reimbursements and payments must be substantiated by correct and appropriate documentary evidence.
- > An employee reimbursement will only be made where the Employee Reimbursement form is provided.
- > The Employee Reimbursement form must not be used for allowances, items paid using a government purchase card, items paid using petty cash and for the procurement of normal SA Health goods and services.

## 4. Detail

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An employer is liable to pay FBT to the Australian Tax Office (ATO) on all taxable fringe benefits provided to its employees and their associates.

The FBT is calculated on all taxable benefits provided to employees/associates during the period 1 April to 31 March, using the current effective rate of FBT for a government department.

Public hospitals and public ambulance services are eligible for FBT exemption up to a capping threshold. This means benefits provided to employees of public hospitals and public ambulance services, are exempt from FBT up to the capped FBT exemption amount.

In SA Health, the FBT exemption cap is applied in the following order:

- > Employer provided benefits
- > Salary packaged benefits
- > Medical Officer Professional Development benefits

Under the South Australian Government Salary Sacrifice Arrangements, employees are liable to meet the cost of any taxation liability, including FBT occasioned as a result of their salary packaging agreement. It is therefore the employee's responsibility to consider the extent to which reimbursements which are subject to FBT, will affect their access to the capped FBT exemption, before entering into a salary packaging arrangement.

#### 4.1. Employee Reimbursement Form

The purpose of Employee Reimbursement form is to have a standard expense payment form which records all expense claims, and captures all the necessary financial and audit information; including declarations for FBT purposes. The Employee Reimbursement form applies to all employee reimbursements (excluding Professional Development for Medical Officers), and the direct payment of accounts addressed to employees. Refer to the Decision Model for Employee Reimbursement below to determine when an employee is entitled to an employee reimbursement.

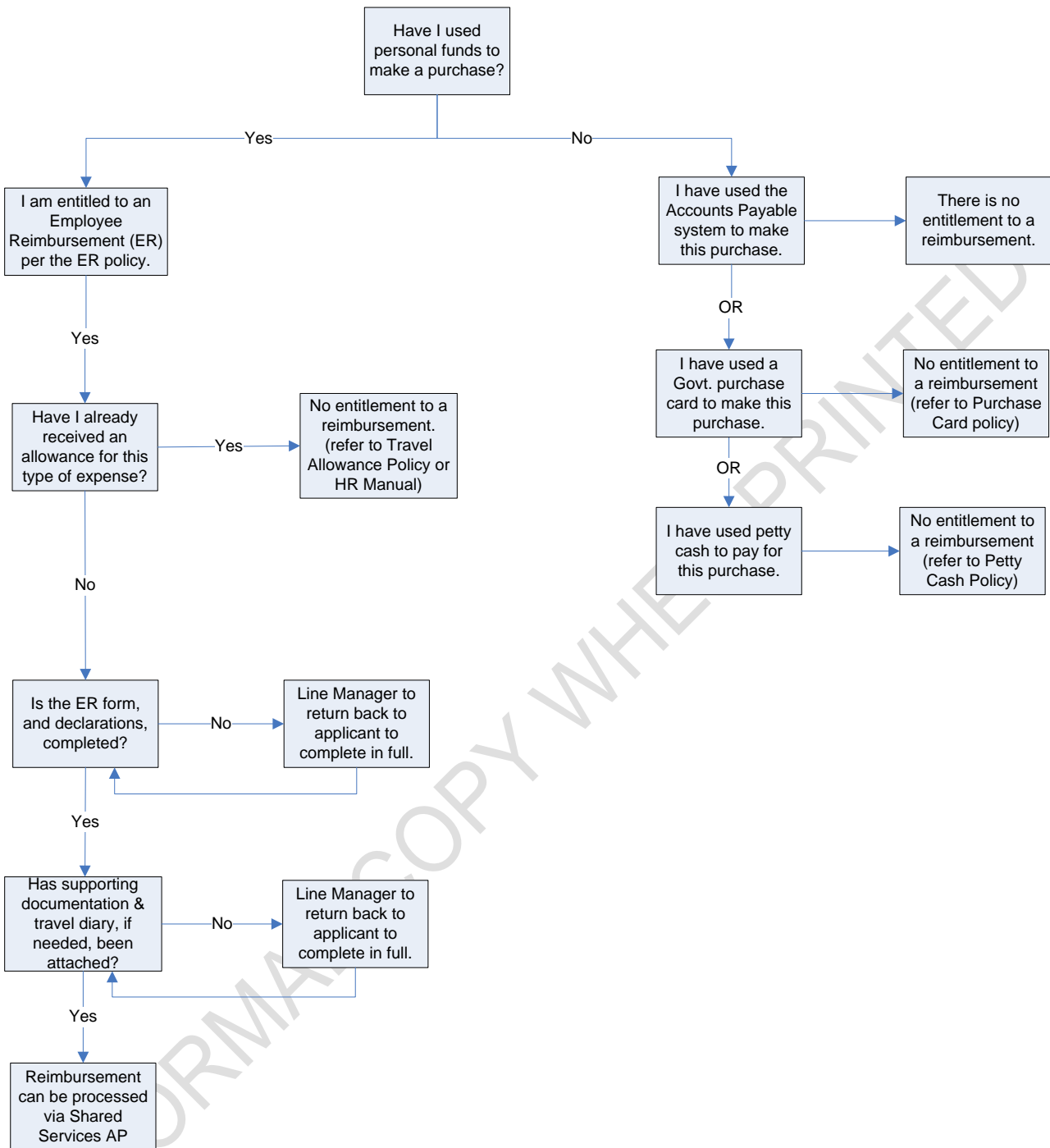
All employee reimbursement claims must be made on the Employee Reimbursement form.

Reimbursement will only be made where this form is provided, and it meets the documentation requirements contained in this policy directive.

The Employee Reimbursement form must not be used for:

- > allowances;
- > items paid using a government purchase card;
- > items paid using petty cash; and
- > the procurement of normal SA Health goods and services; these must be procured through the standard SA Health procurement processes and must not be procured using personal funds. Refer to the Procurement Supply Chain Management website for further information regarding the appropriate methods to procure goods and services.

# Employee Reimbursement Decision Tree



## 4.2. Payment Summary Information

Employers are required to record certain fringe benefits provided to employees on their payment summary. Where the sum of the taxable value of the fringe benefit received by the employee exceeds \$2 000, the taxable value is 'grossed-up' by the current Type 1 gross up factor, and this amount is recorded on the employee's payment summary.

## 4.3. Fringe Benefits Tax Substantiation and Documentation Requirements

If certain documentation requirements of the FBT law are not satisfied, then FBT may automatically apply to employee payments and reimbursements.

As a minimum, receipts from the supplier sufficient to explain the date and nature of the purchase are required. Where GST input tax credits are to be claimed, a valid tax invoice addressed to the employer or employee is required for purchases of \$82.50 or more (including GST).

Refer TAX FAQ 19 *Documentary Evidence* for further guidance.

## 4.4. Expense Payment Fringe Benefits and the 'Otherwise Deductible Rule'

Expense payment fringe benefits occur where either:

- > the employee incurs an expense, and is reimbursed by the employer; or
- > the employer pays for an expense of the employee.

If an employer provides a benefit to an employee, and the employee would be able to claim it as a 'once off' income tax deduction had they paid for it themselves, the taxable value of the benefit can be reduced by this amount. This is called the 'otherwise deductible' rule (ODR).

In order for the otherwise deductible rule to apply, there must be a link between the income earning activities of the individual and the expense.

The ODR does not apply to the purchase of depreciable items costing more than \$300 (e.g. desktop computers, books with a long useful life, or other non-deductible expenditure such as Commonwealth supported course fees or associated loans).

The ODR can only apply to expenses incurred by an employee. That is, a reduction in the taxable value of a benefit is only allowed where the reimbursement or payment is for an expense incurred by an employee. It will not apply to expenses incurred by an associate of the employee. An example of where the ODR would not apply is where the employer reimburses an employee for a telephone account in their spouse's name. In this case, the reimbursement would be fully subject to FBT. Where the account is in joint names, the ODR rule would apply to the employee's portion only.

There are strict substantiation requirements for reducing the taxable value of 'expense payment' fringe benefits, and where these are not satisfied, FBT will apply.

- > For 'exclusive employee benefits' where the expenditure is 100% employment related, i.e. exclusively incurred in gaining or producing salary or wages income of the employee, 'documentary evidence' is required. This is defined in section 900E of the *Income Tax Assessment Act (ITAA) 1997* as a document setting out:
  - > the name of the supplier;
  - > the amount of the expense;
  - > the nature of the goods or services (and if not completed by the supplier, the employee can write in the missing details); and
  - > the date of the expenditure.



An example of an exclusive employee benefit is membership to a professional association required for practicing in that profession. For this type of benefit, the documentation requirements are a receipt showing the details outlined above.

Refer to TAX FAQ 19 *Documentary Evidence* for further information and guidance.

- > For other benefits not exclusively incurred in gaining, or producing, salary or wages income of the benefit recipient, employee declarations are required **in addition to** the documentary evidence. That is, where the benefit could have a private and business purpose, further documentation would be required to substantiate the business purpose; and any reduction in taxable value.

#### 4.5. Common Employee Reimbursements or Payments

It is not the intention of this policy directive to define or limit the types or amounts claimed as reimbursements, however, common employee reimbursements or payments made by SA Health include the following:

- > telephone/internet
- > self-education (courses, examination fees, training, conference & workshops)
- > travel and accommodation associated with the above
- > desktop computers, printers
- > computer accessories
- > eligible work related items
- > books, journal subscriptions, newspapers and periodicals
- > professional library and textbooks
- > meal entertainment
- > entertainment facility leasing expenses
- > recreational entertainment, or
- > clothing and personal effects damaged during the course of employment to a sum of \$1 000 for any single claim (in accordance with Commissioner's Determination 3.2).

Refer to Appendix A for further discussion of the FBT treatment and substantiation requirements relating to the employee reimbursements, or payments, listed above.

## 5. Roles and Responsibilities

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### 5.1. Business Managers, Finance Officers, Administrative Officers etc...

Business Managers, Finance Officers, Administrative Officers, and others approving employee reimbursements are responsible for:

- > ensuring the Employee Reimbursement form is used for all employee reimbursements and payments, and is appropriately certified, approved, and forwarded to Shared Services SA for payment;
- > ensuring correct documentary evidence (receipts, tax invoices, declarations and travel diaries) are obtained for employee reimbursements and either filed with the claim and forwarded to Shared Services SA, or within the business unit;
- > ensure the necessary travel diary has been properly completed by the employee prior to incurring/reimbursing any travel expenditure, and the employee has endorsed the travel diary on their return to certify it is a true representation of the nature of the travel undertaken; and
- > ensuring necessary documentation requested by Taxation Services is provided for FBT analysis and return preparation.

## 5.2. Taxation Services

Taxation Services is responsible for:

- > developing and updating the SA Health policy and procedure in relation to employee reimbursements and payments;
- > developing and updating appropriate forms and declarations for FBT substantiation purposes in relation to employee reimbursements;
- > periodic review of employee reimbursements and payments to calculate taxable fringe benefits;
- > providing advice and guidance on Fringe Benefits Tax relating to employee reimbursements and payments; and
- > the preparation of the SA Health Fringe Benefits Tax Return.

## 6. Reporting

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The SA Health Fringe Benefits Tax Return must be lodgement in accordance with ATO compliance requirements.

## 7. EPAS

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N/A

## 8. Exemption

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N/A

## 9. National Safety and Quality Health Services Standards

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N/A

## 10. Risk

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The potential risks associated with not complying with this policy directive are:

- > Inadequate documentation accompanying transactions (e.g. receipts, declarations, travel diaries) resulting in expenditure being subject to FBT;
- > Under/overstated FBT liability due to the above;
- > ATO penalties and interest in relation to undisclosed FBT, resulting from failure to obtain the necessary documentation associated with employee reimbursements.

## 11. Evaluation

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Compliance with this policy directive will be achieved when:

- > employee reimbursements and payments are fully substantiated by correct and appropriate documentation, thus minimising FBT liability; and
- > zero or minimal ATO penalties are paid, in relation to undisclosed FBT payments, which have arisen from insufficient documentation.

## 12. Definitions

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In the context of this document:

- > **business unit** is a term used to describe the operational units located within the Local Health Networks/Health Networks, the Department for Health and Ageing, and the South Australian Ambulance Service. Business Units may be used to describe an individual hospital within a LHN (e.g. RAH) as well as a Division within the department (e.g. eHealth Systems) or clinical area within a LHN (e.g. cardiology).
- > **employer provided benefits** are benefits provided to employees; other than by way of salary sacrifice or Medical Officer Professional Development entitlements. Examples include:
  - > the use of a government car to drive home,
  - > reimbursement of private telephone expenses, or
  - > reimbursement of Commonwealth supported course fees or associated course fee loans (formerly known as HECS).
- > **fringe benefit** is a non-cash remuneration provided to an employee in respect of their employment, in addition to or in place of, salary and wages. Benefits can be provided by the employer, or they can be provided by a third party under an arrangement with SA Health. Generally, benefits provided to volunteers and contractors do not attract FBT. Examples include:
  - > use of a work car for private purposes;
  - > reimbursing a private expense such as reimbursing non-business related telephone calls; or
  - > reimbursement of an employee's Commonwealth supported course fees or associated loan.
- > **fringe benefits tax (FBT)** is a tax payable by an employer to the ATO on taxable fringe benefits. It is calculated by multiplying the taxable value of the fringe benefit by its gross up rate and then applying the current FBT rate to determine the final amount payable.
- > **grossing up a benefit** increases the taxable value of benefits you provide to reflect the gross salary employees would have to earn at the highest marginal tax rate (including Medicare levy) to buy the benefits after paying tax. There are two separate gross-up rates:
  - > a higher (type 1) gross-up rate - this rate is used where the benefit provider is entitled to a GST credit for the provision of a benefit; and
  - > a lower (type 2) gross-up rate - this rate is used if the benefit provider is not entitled to GST credits.

- > **otherwise deductible rule** is the taxable value of a benefit may be reduced by the amount that an employee would have been entitled to claim as an income tax deduction in their personal tax return, if the benefit was not paid for, reimbursed or provided by the employer. That is, where expense relates to the employee performing their work, or otherwise used in earning their assessable income, the taxable value is reduced by the amount which would be deductible.
- > **proof of payment** is, generally, a tax invoice which may also be a receipt, showing the actual amount paid by the employee. This occurs in most “over the counter” transactions, regardless of whether it is paid by cash or credit card. A receipt for purchases in another country showing a payment made will also be acceptable.

If an invoice is raised by a supplier and paid at a later point in time, a receipt of the actual payment will be necessary. A copy of a bank statement or credit card statement will be sufficient evidence if a receipt has not been provided and it provides the relevant information outlined above.

South Australian Government Financial Management requires proof of payment. Treasurer’s Instruction 2 *Financial Management*, issued by the Department of Treasury and Finance states:

“The Chief Executive must:

2.10.7 ensure documentation that substantiates the existence or occurrence; completeness; valuation or allocation; **passing of control; rights and/or obligations relating to expenditure** activities is maintained.

2.11 The Chief Executive must develop, document and maintain policies, procedures, systems and internal controls relating to expenditure transaction processing and the management of accounts payable balances.”

This requires evidence the payment was actually made.

- > **reimbursement** occurs when you incur an expense and you are reimbursed, either in full or in part, for that expense, and the expense is vouched by a receipt or invoice. For example,. the employer reimburses the cost of attending a conference related to your work.

Reimbursements will require substantiation in the form of receipts, proof of payment and tax compliant declarations to demonstrate how the reimbursement is connected to your current job, and the extent to which it relates to your current job expressed as a percentage. The ATO requires the employer to assess reimbursements made to employees and supporting information for FBT purposes.

Employee reimbursements are to be processed using the Employee Reimbursement forms or other specified employee reimbursement forms, such as the PD Reimbursement Claim Form for Medical Officers which all contain declarations to capture this vital information.

- > **reportable fringe benefit amount** where fringe benefits with a total taxable value of more than \$2,000 are provided to an employee in an FBT year, the grossed-up taxable value must be reported on the employee's payment summary. This is achieved by multiplying the taxable value by the current Type 1 gross up rate.

## 13. Associated Policy Directive/Policy Guidelines

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- > [Petty Cash Policy Directive and Procedures](#)
- > [Professional Development and Fringe Benefits Tax Policy Directive and Procedure](#)
- > [Purchase Card Policy Directive](#)

## 14. References, Resources and Related Documents

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- > [ATOID 2008/127 Exempt Benefits: work related items – primarily for use in the employee's employment](#)
- > [Employee Reimbursement Fact Sheet and Frequently Asked Questions](#)
- > [Fringe Benefits Tax Assessment Act 1986](#)
- > [Fringe Benefits Tax – Rates and Thresholds](#)
- > [SA Health Human Resources Manual](#)
- > [Oracle Employee Reimbursement Form](#)
- > [SA Health Travel Diary](#)
- > [Taxation Ruling TR 98/9: Income Tax – Deductibility of Self Education Expenses](#)
- > [Taxation Ruling TR 2007/12 Fringe Benefits Tax – Minor Benefits](#)
- > [TAX FAQ 19 Documentary Evidence](#)
- > [Treasurer's Instruction 2 Financial Management](#)
- > [Treasurer's Instruction 25 Taxation Policies](#)
- > [Uniform Capital Allowance System: \\$300 Immediate deduction](#)

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## APPENDIX

### A Common Employee Reimbursements, FBT Treatment & Substantiation Requirements

This section contains common employee reimbursements and payments made by SA Health. Employee reimbursements are usually made in relation to the following, some of which are further discussed below:

- > telephone/internet
- > self-education (courses, examination fees, training, conference and workshops)
- > travel and accommodation associated with the above
- > desktop computers, printers
- > computer accessories
- > eligible work related items
- > books, journal subscriptions, newspapers and periodicals
- > professional library and textbooks
- > meal entertainment
- > entertainment facility leasing expenses
- > recreational entertainment

#### A.1 Telephone/internet accounts

##### Type of expenditure

Payment of an employee's or associates:

- > personal telephone calls and/or line rental;
- > personal mobile phone charges;
- > internet access charges;

direct to the supplier, or as a reimbursement.

The full amount of the payment/reimbursement will be subject to FBT, unless:

- > the charges are business related (the 'otherwise deductible rule'); and
- > declarations are completed specifying the percentage of telephone/internet/mobile use that is business related.

Where an employer has reimbursed, or paid, for an employee's telephone or internet costs, the employee is required to complete a declaration stating the % of the expenses which relate to business. This amount would be otherwise deductible.

In the case of telephone reimbursements, some employees itemise their account, and claim reimbursement for business calls only. In this case, the business % would be 100%. Where they are claiming reimbursement for the entire account and some of the calls are private, the % will be less than 100%.

When claiming reimbursement for the rental component of the account, the % claimed cannot be 100% unless that phone has a designated home line for business use only. The % of business use applicable to the rental will be the % of total business calls to total calls.

## Documentation and Substantiation

The employee must provide the following in addition to the Employee Reimbursement form:

- > receipts from the supplier stating the date and nature of the purchase, and where GST applies and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employer or employee is required to enable input tax credits are to be claimed; and
- > a declaration in an approved format substantiating the extent to which the expense relates to the employee's current work and would therefore be 'otherwise deductible'. This declaration forms part of the Employee Reimbursement form.

Employees whose salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

This is because, under the South Australian Government Salary Sacrifice Arrangements, employees are liable to meet the cost of any taxation liability including FBT occasioned as a result of their salary sacrifice agreement.

Where the required documentation is not held, FBT will apply at the effective rate.

## A.2 Self-Education Expenditure

### Types of Expenditure

Self-education includes:

- > courses undertaken at an educational institution (whether leading to a formal qualification or not);
- > attendance at a work-related conference or seminar;
- > self-paced learning and study tours including sabbaticals (whether within Australia or overseas).

The costs relevant for this purpose are:

- > course or tuition fees of attending an educational institution, work-related conference or seminar, including student union fees;
- > the cost of professional and trade journals, text books and stationery;
- > airfares or other fares incurred on overseas study tours or sabbatical, on work-related conferences or seminars, or attending an educational institution where the employee is away from home overnight. (Refer to A.3 below for further information regarding Travel and Accommodation).

### Circumstances where FBT will *not* generally apply

Where self-education expenses are deductible for income tax purposes, they will not be subject to FBT under the 'otherwise deductible rule'. The taxable value of a benefit will be reduced to the extent that, had the employee incurred and paid for the expenditure themselves, the employee would have been entitled to a personal income tax deduction. Strict documentation requirements must be satisfied otherwise FBT will apply.

Self-education expenses are deductible for income tax purposes (hence no FBT) where they have a relevant connection to the taxpayer's current income-earning activities, or are likely to lead to an increase in income from those activities.

This includes education for the purpose of:

- > improving current work related knowledge or skills;
- > keeping up to date to enable better discharge of duties of current employment;
- > seeking a further qualification that is relevant to the duties of current employment, or could lead to an increased position and salary (promotion) with the employee's current field of work.

### **Circumstances where FBT will generally apply**

No deduction is allowable (and hence FBT applies) where the self-education expenses are incurred to enable the employee to get employment, to obtain new employment or to open up a new income-earning activity. This includes studies in relation to a particular profession, occupation or field of employment in which the taxpayer *is not yet engaged*.

Furthermore, the following self-education expenses are not allowable as an income tax deduction and **full FBT applies** to the reimbursement amount regardless of their purpose:

- > Commonwealth supported course fees (HECS fees)
- > student loans for Commonwealth supported courses or loans associated with full fee paying courses (HECS-HELP, FEE HELP);
- > expenditure on meals while attending an educational institution, work-related conference, or seminar where the taxpayer is not required to sleep away from home;
- > expenditure on accommodation and meals where a taxpayer who has travelled to another location for self-education purposes has established a new home.

### **Documentation and Substantiation**

The employee must provide the following in addition to the Employee Reimbursement form:

- > receipts from the supplier stating the date and nature of the purchase. Where GST applies, and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employer or employee is required to enable input tax credits to be claimed;
- > a declaration in an approved format substantiating the extent to which the expense relates to the employee's current work, and would therefore be 'otherwise deductible'. This declaration forms part of the Employee Reimbursement form;
- > where travel is required to attend the course, and the employee is away for more than 5 nights or travels overseas, the SA Health Travel Diary must be completed.

Employees whose salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

Where the documentation is not held, FBT will apply at the effective rate.

## **A.3 Travel and Accommodation**

### **Types of Expenditure**

Travel and accommodation costs include, but are not limited to, airfares, accommodation, meals, travel insurance, visas, exchange fees, taxi fares and other fares.

Incurring of travel expenditure (or reimbursing travel costs to an employee) requires:

- > approval to travel by the appropriate delegated authority;
- > completion of a travel diary (where required, refer below); and
- > supporting receipts or tax invoices.



Travel expenditure will only be incurred by SA Health, or reimbursed to employees, when the necessary documentation is completed.

### **FBT Treatment**

Travel expenditure paid for by the employer will not usually be subject to FBT, where it is incurred in relation to self-education costs that are 'otherwise deductible'.

The following broad principles explain the FBT treatment of travel expenses:

- > travel with main and overriding purpose of undertaking professional development courses and activities that maintain and enhance the employee's skills relevant to their current employment, and/or could lead to increased employment income and opportunities, is not subject to FBT.
- > this will be the case even if there is a minor incidental private purpose. SA Health policy allows for 3 private days (or if the employee is away for more than 30 days, 10% of the number of days away) as being minor and incidental.
- > travel with dual business and private purposes must be apportioned so that FBT is payable on the non-business component. For example, FBT is payable where the employee takes a holiday as part of their professional development or business travel. It is SA Health's policy to treat 50% of the amount paid or reimbursed, subject to FBT, for all dual purpose travel (airfares and other travel expenses) unless otherwise assessed by Taxation Services.
- > travel that is not necessary and relevant to the employee's occupation, such as in connection with study toward obtaining a qualification in a different field, will not be otherwise deductible, and FBT will apply.

### **Documentation and Substantiation**

The employee must provide the following for reimbursement of travel and accommodation expenses in addition to the required travel approvals via the appropriate delegated authority:

- > the SA Health Travel Diary. This must be completed and attached to the reimbursement claim where an employee undertakes:
  - > domestic travel for more than 5 nights, or any
  - > overseas travel.

Where a travel diary is not completed as required, travel costs, including accommodation and meals, may be deemed private, and FBT may apply at the effective rate.

- > where the travel expenditure is originally incurred by the employer, the travel diary must be completed prior to travel. Upon return, the employee must endorse the Travel Diary, or make such adjustments as are necessary, and certify it as a true record of the actual travel undertaken. Failure to provide such certification may result in the application of FBT.
- > where the travel expenditure is originally incurred by the employee, and reimbursed by the employer, a completed travel diary is required prior to reimbursement.
- > receipts from the supplier, stating the date and nature of the purchase, and where GST applies and the amount exceeds \$82.50, a valid tax invoice addressed to the employer, or employee, is required to enable input tax credits to be claimed.

Employees whose salary package will need to consider the extent to which employee reimbursements, subject to FBT, will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

## A.4 Desk Top Computers

The reimbursement of the cost of a desktop computer is an expense payment fringe benefit, and FBT will apply to the full amount of the reimbursement.

Even if the computer is used for work purposes, the taxable value cannot be reduced under the 'otherwise deductible' rule. This is because the computer is a capital item and is depreciated, and not claimed as a one-off deduction in the year it was purchased.

- > Refer to Uniform Capital Allowance System: \$300 Immediate Deduction for further information regarding this.

Employees who salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

## A.5 Computer Accessories

The reimbursement or payment of computer accessories, are an expense payment fringe benefit. Where the cost of these accessories is greater than \$300 GST inclusive, they will be subject to FBT as they will be considered to be capital items, and not otherwise deductible.

Where the cost is less than \$300 GST inclusive, they will be otherwise deductible to the extent they relate to the employee's current employment, and the appropriate documentation and substantiation requirements are met.

Employees who salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

### Documentation and Substantiation

The employee must provide the following, in addition to the Employee Reimbursement form:

- > receipts from the supplier, stating the date and nature of the purchase, and where GST applies and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employer, or employee, is required to enable input tax credits to be claimed;
- > a declaration in an approved format substantiating the extent to which the expense relates to the employee's current work, and would therefore be 'otherwise deductible'. This declaration forms part of the Employee Reimbursement form.

Employees who salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

Where the documentation is not held, FBT will apply at the effective rate.

## A.6 Eligible Work Related Items

### FBT Exemption

Section 58X of the FBT Assessment Act 1986 was amended by the Tax Laws Amendment (Budget Measures) Bill 2008 such that a fringe benefits tax exemption is available for the following eligible work-related items that are used primarily for use in the employee's employment:

- > a portable electronic device (including a laptop, mobile phone, PDA, portable printer; GPS)

- > an item of computer software;
- > an item of protective clothing;
- > a briefcase; and
- > a tool of trade.

Accessories are not classified as eligible work related items, but if they are under \$300 GST inclusive, they may be otherwise deductible.

The Employee Reimbursement form must be completed where these items are reimbursed or paid for.

In considering whether one of the items listed above is primarily used in the employee's employment, consideration needs to be given to the primary purpose of why it was provided in the first place.

The ATO has issued guidance entitled ATOID 2008/127 *Exempt Benefits: work related items – primarily for use in the employee's employment*, about the circumstances where an item is **primarily used in the employee's employment**. The employee's job description, duty statement, or employment contract can provide a basis for concluding that the item was primarily for business use. Alternatively, in cases where it is evident that there are competing uses, an employer must maintain records to document such factors as:

- > the reason/(s) the item was provided to the employee
- > the type of work to be performed by the employee
- > how the use of the item relates to the employee's employment duties; and
- > the employer's policy and any conditions relating to the use of the item.

To demonstrate this in SA Health, the employee will be required to complete a declaration in a standard form, signed by the employee and manager, stating how the use of the item relates to the employee's employment duties, and declaring that:

- > The item must not already provided by the employer for use as a tool of trade
- > Any personal use is merely incidental to employment related use; and
- > If the item is a laptop/notebook computer or PDA either:
  - > the device is configured and connected to a SA government computer network/domain; or
  - > the device is used 80% or more for employment related activities.

Refer to the Employee Reimbursement form.

Section 58X (3) and (4) of the Fringe Benefits Tax Assessment Act 1986 states that the FBT exemption does not apply where if, earlier in the year, another item has already been provided or reimbursed by the employer that has substantially identical functions to the item being reimbursed, **unless** it is a replacement item, and the previous item was lost or destroyed, or needed replacing because of development in technology. This effectively allows an FBT exemption for only one of the above items every FBT year.

Guidance on what is meant by *'primarily used in the employee's employment'*

This means that the item is used by an employee to perform their current job, and the use is a primary one. Where the item is used for a purpose other than to carry out work functions, the item will not be exempt if its use is not primarily to carry out those work functions.

The current ATO view on a portable electronic device, such as a laptop, being used for *work related study* is as follows:

- > where the **primary** purpose of providing the item is for work use – EXEMPT Employee Work Related Items;
- > if the laptop is **primarily used for work** but is also used for study – EXEMPT Employee Work Related Items;
- > where the **primary purpose is for study** or self-professional development (even if work related) – NOT EXEMPT, but may be otherwise deductible if it is not considered a capital item.

### **Documentation or Substantiation**

The employee must provide the following, in addition to the Employee Reimbursement form:

- > receipts from the supplier, stating the date and nature of the purchase, and where GST applies and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employee or employer, is required to enable input tax credits to be claimed.
- > if a FBT exemption is claimed on the basis that the eligible work related items are primarily used in relation to the employee's employment, a declaration is required in the approved format. This declaration forms part of the Employee Reimbursement form, and implies that there is additional documentation supporting the use of the item and this information is held by the employer.
- > if the item has substantially identical functions to a previous item reimbursed in the same FBT year, but is a replacement, a signed statement by the employee to disclose this will be required as part of the reimbursement claim.

Employees who salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

Where the documentation is not held, FBT will apply at the effective rate.

## **A.7 Books, Journal Subscriptions, Newspapers and Periodicals**

### **FBT Exemption**

The Fringe Benefits Tax Assessment Act 1986, (s)58H states that reimbursement for newspapers and periodicals are exempt from FBT where they are directly relevant to the employee's employment. A subscription to a trade or professional journal is also FBT exempt.

Exempt items will include journals and newsletters specifically used in a particular job or profession, but not general interest newspapers such as 'The Advertiser' or 'The Australian'.

The reimbursement of professional books and trade journals, textbooks and stationery will not be subject to FBT, where they have a necessary connection with the employee's work, and they fall under the 'otherwise deductible' rule.

### **Documentation and Substantiation**

The employee must provide the following in addition to the Employee Reimbursement form:

- > receipts from the supplier, stating the date and nature of the purchase, and where GST applies and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employer or employee, is required to enable input tax credits to be claimed;

- > a declaration in an approved format substantiating the extent to which the expense relates to the employee's current work, and would therefore be 'otherwise deductible'. This declaration forms part of the Employee Reimbursement form.

Employees who salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

Where the documentation is not held, FBT will apply at the effective rate.

## A.8 Professional Library and Textbooks

The cost of a professional library including textbooks that have a long life (greater than 12 months), or have a cost of \$300 or more (GST inclusive), will not be otherwise deductible because they are viewed by the ATO as 'capital'. These will be subject to FBT.

### Claiming the cost of publications

An employee can claim a deduction for the total cost of a publication which has been purchased if **all** of the following criteria apply:

- > you use the publication mainly for work purposes (must show a connection with income earning activities); **and**
- > the publication is not part of a set you start to hold in that income year, where the total set cost more than \$300; **and**
- > the total cost of the item, and any other **identical or substantially identical** items you start to hold in that income year, does not exceed \$300.

The following are general rules which apply in practice:

- > textbooks with reasonably long shelf-lives are normally depreciated, rather than qualifying for outright deduction. If these are reimbursed by the employer, FBT will apply.
- > 'annual' textbooks such as annual editions of the Master Tax Guide may be claimed as outright deductions in the year of purchase; as they would not generally be kept longer than 12 months.
- > where textbooks used in a course of study are used on a regular basis only in the year of purchase and disposed of on completion of the course, the Commissioner for Taxation accepts that the cost of the books is deductible.

### Documentation and Substantiation

The employee must provide the following, in addition to the Employee Reimbursement form:

- > receipts from the supplier, stating the date and nature of the purchase, and where GST applies and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employer, or employee, is required to enable input tax credits to be claimed;
- > a declaration in an approved format substantiating the extent to which the expense relates to the employee's current work and would therefore be 'otherwise deductible'. This declaration forms part of the Employee Reimbursement form;

Employees who salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

Where the documentation is not held, FBT will apply at the effective rate.

## A.9 Entertainment

Entertainment expenses are expenses incurred on food, drink or recreation. They can be paid for by employee reimbursement, government credit cards or by invoice.

Accommodation or travel expenses are also entertainment expenses if they are incurred in connection with or to facilitate entertainment by way of food, drink or recreation.

### Meal entertainment

Meal entertainment is defined to be entertainment by way of food or drink. It does not include entertainment by way of recreation (such as hire of corporate boxes, theatre tickets, sporting memberships such as corporate cup).

For each food and drink benefit provided it is necessary to consider whether the food and drink has an element of entertainment. Not all food and drink provided is meal entertainment. Reference should be made to Taxation Ruling TR97/17 *Income tax and fringe benefits tax: entertainment by way of food or drink*.

Generally, fringe benefits tax will apply to meal entertainment for employees, or associates, of the Department for Health and Ageing, and other government employees not eligible for the capped FBT exemption.

Local Health Networks and Health Networks and SAAS employees are exempt from meal entertainment; provided documentary evidence is supplied.

Common examples of meal entertainment include business lunches, restaurant meals, staff, Christmas functions, and happy hours. The provision of mere sustenance to employees during a working day is not the provision of meal entertainment and is not subject to FBT. This includes light lunches, morning or afternoon teas, and other refreshments.

For example, the provision of sandwiches, salads, light food and non-alcoholic drinks at an in-house meeting or during a training session would not be considered meal entertainment and is therefore not subject to FBT. Also, meals provided whilst travelling are not meal entertainment provided there is an overnight stay.

Where the department provides meal entertainment to employees of another government agency, the other agency is technically liable for the FBT. As this is administratively difficult to manage, Treasury has prescribed a policy (Taxation Policy Statement TPS2) that, in these circumstances, the agency providing the meal entertainment is required to pay the applicable FBT.

In accordance with TPS2, the department uses the actual method to value meal entertainment. Under this method, the total meal entertainment expenditure is split on a per head basis between:

- > meal entertainment for SA Government employees (whether of the department or other state and local government employees, including the Minister) and their associates – these will be subject to FBT.
- > meal entertainment for employees of public hospitals – these are not subject to FBT (because the benefit is an excluded fringe benefit for these employees)
- > meal entertainment for other persons – these are not subject to FBT.

### Documentation and Substantiation

The employee must provide the following, in addition to the Employee Reimbursement form:

- > receipts from the supplier, stating the date and nature of the purchase, and where GST applies and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employer, or employee, is required to enable input tax credits to be claimed;

- > details of employees, associates or others, who were provided with meal entertainment. This forms part of the SA Health Employee Reimbursement form.

### **Entertainment Facility Leasing Expense (EFLE)**

An Entertainment facility leasing expense means an expense incurred in hiring or leasing corporate boxes, boats, planes and other premises (e.g. private holiday accommodation) or facilities for the purpose of providing entertainment. However, it does not include expenses attributable to the provision of food or drink.

- > ELFE benefits provided to LHN and SA Ambulance employees are exempt from FBT; or
- > ELFE benefits provided to DHA employees are subject to FBT, on 50% of the amount paid or reimbursed.

### **Documentation and Substantiation**

The employee must provide the following, in addition to the Employee Reimbursement form:

- > receipts from the supplier, stating the date and nature of the purchase, and where GST applies and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employer, or employee, is required to enable input tax credits to be claimed;
- > details of the number of employees or associates who were provided with the EFLE benefit if not a public hospital or SA Ambulance employee.

### **Recreational Entertainment**

Recreational entertainment is a social activity other than in connection with the consumption of food or drink.

For example, recreational entertainment will include:

- > Corporate Cup, City to Bay entry fees;
- > tickets to sporting events, bowling, theatre;
- > holiday travel and accommodation;
- > the use of corporate boxes, boats, and ski lodges.

**There are no exemptions for recreational entertainment including the minor benefit exemption.**

These benefits are fully subject to FBT for all SA Health employees.

Employees whose salary package will need to consider the extent to which employee reimbursements subject to FBT will affect their access to the FBT exemption cap when entering into salary packaging arrangements.

## **A.10 Minor Benefits**

Benefits provided to an employee, or an associate of the employee, which are less than \$300 GST inclusive, and are provided on an infrequent and irregular basis, are generally exempt from FBT. The 'Minor Benefits' rule is contained in section 58P of the Act.

The exemption does not extend to:

- > recreational entertainment for tax exempt bodies;
- > meal entertainment (DHA);
- > benefits provided as a reward for services (ie Professional Development for Salaried Medical Officer VMS and Clinical Academics, SAASFIT entitlements and driver's licence reimbursements for SAAS employees).

The following factors need to be considered in determining whether it would be unreasonable to treat a minor benefit as a fringe benefit:

- > the infrequency and irregularity with which identical or similar benefits are provided;
- > the value of the benefit and of similar or identical benefits;
- > the value of the benefit and other associated benefits;
- > the practical difficulty in determining the value of the benefit, and any associated benefits; and
- > the circumstances in which the benefit is provided.

For detailed explanation on the interpretation, please refer to Taxation Ruling TR 2007/12.

#### **Documentation and Substantiation**

The employee must provide the following in addition to the Employee Reimbursement form:

- > receipts from the supplier, stating the date and nature of the purchase, and where GST applies and the amount claimed exceeds \$82.50, a valid tax invoice addressed to the employer, or employee, is required to enable input tax credits to be claimed.

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